Housing Company Tshwane NPC
(Registration number 2001/029821/08)
Annual Financial Statements
for the year ended 30 June 2019
These annual financial statements have not been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.

HOUSING COMPANY TSHWANE NPC

(Registration number 2001/029821/08)
Annual Financial Statements for the year ended 30 June 2019

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	To develop and manage social / rental housing for the benefit of the residents of the City of Tshwane
Directors	SST Kholong S Makhari MR Tshaka L Mashao EH Mokoena T Maluleka E Monhla
Registered office	Shop 3, 4, 5 & 6 Ground Floor Bothongo Plaza West 271 Francis Baard Street Pretoria 0001
Postal address	PO Box 11586 The Tramshed 0126
Controlling entity	City of Tshwane Metropolitan Municipality
Bankers	ABSA Bank Limited
Auditors	Auditor General of South Africa
Secretary	Celiwe Mhlungu
Company registration number	2001/029821/08
Preparer	The annual financial statements were internally compiled by: L Makibinyane Finance Manager
Published	31 December 2019
Applicable legislation	Companies Act (Act 71 of 2008) Municipal Finance Management Act (Act 56 of 2003) Municipal Structures Act (Act 117 of 1998) Municipal Systems Act (Act 32 of 2000) Housing Act (Act 107 of 1997) Constitution of Republic of South Africa (Act 108 of 1998) Public Audit Act (Act 25 of 2004)

HOUSING COMPANY TSHWANE NPC

(Registration number 2001/029821/08)
Annual Financial Statements for the year ended 30 June 2019

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GRAP	Generally Recognised Accounting Practice
ME's	Municipal Entities
VAT	Value Added Tax
MFMA	Municipal Finance Management Act (Act 56 of 2003)
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
NPC	Non Profit Company
SARS	South African Revenue Service

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is her responsibility to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently being applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the entity and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the entity's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, she is satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future, provided that City of Tshwane Metropolitan Municipality (CTMM) continues its financial support for the entity.

The entity is wholly dependent on the City of Tshwane Municipality for continued funding of operations. The annual financial statements are prepared on the basis that the entity is a going concern and that the City of Tshwane Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

Although the accounting officer is primarily responsible for the financial affairs of the entity, she is supported by the entity's external auditors.

The external auditors are responsible for independently reviewing and reporting on the entity's annual financial statements. The annual financial statements have been examined by the entity's internal auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 70, which have been prepared on the going concern basis, were approved by the accounting officer on 31August 2019 and were signed on the company's behalf by:

L Mudau CA (SA)
Chief Executive Officer

Directors' Report

The directors submit their report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

Housing Company Tshwane is a municipal entity of the City of Tshwane as defined in the MFMA.

The entity is engaged in to develop and manage social/rental housing for the benefit of the residents of the City of Tshwane.

During the year there were no changes in the activities of the business.

The operating results and state of affairs of the entity are fully set out in the attached annual financial statement and do not in our opinion require any further comment.

Net surplus of the entity was R 96,275,926 (2018: surplus R 107,290,546)

2. Going concern

We draw attention to the fact that at 30 June 2019, the entity had an accumulated surplus of R 265,672,169 and that the entity's total assets exceed its liabilities by R 279,017,750.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the entity to continue as a going concern is dependent on the parent municipality, City of Tshwane not having an intention to liquidate the entity. The entity is also generating additional revenue by renting out the advertising space at Eloff building.

3. Subsequent events

The directors are not aware of any significant matter or circumstance arising since the end of the year which may have an effect on the financial statements.

4. Directors' interest in contracts

The directors have declared that they have no personal interest in the contracts of the company.

5. Accounting policies

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board and additional disclosure requirements in terms of Municipal Finance Management Act (Act 56 of 2003).

6. Share capital / contributed capital

The entity is a non-profit company and has no share capital during the year under review.

7. Dividends or similar distributions

No dividends were declared or paid to the shareholder during the period under review.

Directors' Report

8. Accounting Officer

The directors of the entity during the year are as follows:

Name	Nationality	Changes
SST Kholong	South African	Appointment: 10/04/2012 and retained
S Makhari	South African	Appointment: 01/02/2018
MR Tshaka	South African	Appointment: 01/02/2018
L Mashao	South African	Appointment: 01/02/2018
EH Mokoena	South African	Appointment: 01/02/2018
T Maluleka	South African	Appointment: 01/02/2018
E Monhla	South African	Appointment: 01/02/2018

9. Company Secretary

The company secretary of the entity is Celiwe Mhlungu of:

Business address

Shop 3, 4, 5 & 6 Ground floor, Bothongo Plaza West
271 Francis Baard Street
Pretoria
0001

10. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of the best practice.

The entity confirms and acknowledges its responsibility to comply with the King IV Report of Corporate Governance. The accounting officer discusses the responsibilities of management in this respect at Board meetings.

The salient features of the entity's adoption of the Code is outlined below:

Board of directors

The Board:

- retains full control over the entity, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the entity;
- is of a unitary structure comprising:
  - non-executive directors, all of whom are independent directors as defined in the Code; and
  - executive directors.

Chairperson and Chief Executive Officer

The Chairperson is a non-executive and independent director (as defined by the Code).

The roles of Chairperson and Chief Executive are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Directors' Report

Remuneration

The board members are remunerated for the attendance of committees and board meetings. The City of Tshwane determines the rates payable for attendance.

The remuneration of the Chief Executive Officer, who is the only executive director of the entity, is determined by the board of directors with the guidance of the Parent municipality.

Information on predetermined objectives

The entity has developed strategic objectives with related key performance indicators using the SMART principles. The performance of the set targets are measured on a monthly and quarterly basis.

The performance on the set targets has declined as compared to the previous period, most targets on projects were not achieved. On Townlands project, 98 units were not delivered as there were structural defects that were encountered on the existing buildings that were constructed by the previous contractor which delayed the progress on site

On the Timberlands projects, the adjustement budget allocation was not approved by the City of Tshwane. On Chantelle project, there were delays in obtaining the wayleave approval from Gautrans and upon approval, additional works were added to the intention.

For the period under review, the entity had 21 key performance indicators (KPI) and 11 indicators were achieved.

11. Controlling entity

The entity's controlling entity is City of Tshwane Metropolitan Municipality.

12. Auditors

In accordance with section 92 of the Municipal Finance Act (No 56 of 2003), Auditor General of South Africa will continue as the entity's external auditor for the next financial period.

Company Secretary's Certification

Declaration by the company secretary in respect of Section 88(2)(e) of the Companies Act

In terms of Section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that the company has lodged with the Commissioner all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

Celiwe Mhlungu
Company Secretary

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	8	196,802	195,251
Receivables from non-exchange transactions	9	17,616,515	-
VAT receivable	10	3,115	5,113
Other receivables from exchange transactions	7	100,348	99,638
Cash and cash equivalents	11	63,906,333	62,360,049
		81,823,113	**62,660,051**
Non-Current Assets			
Property, plant and equipment	4	231,632,720	144,985,130
Intangible assets	5	363,827	465,346
		231,996,547	**145,450,476**
Total Assets		**313,819,660**	**208,110,527**
Liabilities			
Current Liabilities			
Interest bearing liabilities	14	-	315,398
Operating lease liability	6	156	6,231
Payables from exchange transactions	18	20,423,477	1,729,039
Unspent conditional grants and receipts	13	5,777,333	22,889,027
Employee Benefits	15	964,579	429,213
Provision	16	6,634,402	2,488,612
Rental deposit received	17	1,001,963	607,476
		34,801,910	**28,464,996**
Non-Current Liabilities			
Interest bearing liabilities	14	-	1,226,707
Total Liabilities		**34,801,910**	**29,691,703**
Net Assets		**279,017,750**	**178,418,824**
Reserves			
Revaluation reserve	12	13,345,581	9,022,581
Accumulated surplus		265,672,169	169,396,243
Total Net Assets		**279,017,750**	**178,418,824**

* See Note

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Rental of facilities and equipment	20	9,097,053	8,505,944
Other income	20	220,466	67,690
Interest received	26	205,935	162,788
Total revenue from exchange transactions		**9,523,454**	**8,736,422**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	21	107,003,299	116,120,213
Total revenue	20	**116,526,753**	**124,856,635**
Expenditure			
Employee related costs	24	(9,642,733)	(6,813,982)
Remuneration of directors	24	(1,780,352)	(811,820)
Depreciation and amortisation	27	(938,689)	(919,768)
Finance costs	28	(71,237)	(241,127)
Lease rentals on operating lease		(497,542)	(680,142)
Debt Impairment	25	(1,030,718)	(933,061)
Loss on disposal of PPE		(47,762)	(32,659)
General Expenses	22	(6,241,794)	(7,133,530)
Total expenditure		**(20,250,827)**	**(17,566,089)**
Surplus for the year		**96,275,926**	**107,290,546**

* See Note

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Balance at 01 July 2017	**9,022,581**	**61,645,758**	**70,668,339**
Changes in net assets			
Other fair value gains	-	459,936	459,936
Net income (losses) recognised directly in net assets	-	459,936	459,936
Surplus for the year	-	104,777,248	104,777,248
Total recognised income and expenses for the year	-	105,237,184	105,237,184
Correction of errors (note 35)	-	2,513,301	2,513,301
Total changes	-	107,750,485	107,750,485
Restated* Balance at 01 July 2018	**9,022,581**	**169,396,243**	**178,418,824**
Changes in net assets			
Revaluation of Building	4,323,000	-	4,323,000
Net income (losses) recognised directly in net assets	4,323,000	-	4,323,000
Surplus for the year	-	96,275,926	96,275,926
Total recognised income and expenses for the year	4,323,000	96,275,926	100,598,926
Total changes	4,323,000	96,275,926	100,598,926
Balance at 30 June 2019	**13,345,581**	**265,672,169**	**279,017,750**

* See Note

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from customers		8,703,899	7,289,596
Grants		72,275,090	135,427,717
Interest income		205,935	162,788
Other receipts		613,356	1,278,788
		81,798,280	144,158,889
Payments			
Cash paid to suppliers		-	(37,600,490)
Cash paid to employees and directors		4,570,867	(7,428,381)
Finance costs		(71,237)	(241,127)
		4,499,630	(45,269,998)
Net cash flows from operating activities	30	**86,297,910**	**98,888,891**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(83,206,272)	(75,609,785)
Purchase of other intangible assets	5	(3,249)	-
Net cash flows from investing activities		**(83,209,521)**	**(75,609,785)**
Cash flows from financing activities			
Repayment of interest bearing liabilities		(1,542,105)	(315,399)
Net cash flows from financing activities		**(1,542,105)**	**(315,399)**
Net increase/(decrease) in cash and cash equivalents		**1,546,284**	**22,963,707**
Cash and cash equivalents at the beginning of the year		62,360,049	39,396,342
Cash and cash equivalents at the end of the year	11	**63,906,333**	**62,360,049**

* See Note

Statement of Comparison of Budget and Actual Amounts

Budget

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Rental of facilities and equipment	8,770,137	(7,609)	**8,762,528**	9,097,053	**334,525**	46
Interest earned - external investments	14,400	23,193	**37,593**	40,915	**3,322**	46
Interest earned - outstanding debtors	148,620	6,824	**155,444**	165,020	**9,576**	46
Other income	66,266	5,659	**71,925**	220,466	**148,541**	46
Total revenue from exchange transactions	**8,999,423**	**28,067**	**9,027,490**	**9,523,454**	**495,964**	
Revenue from non-exchange transactions						
Transfer revenue						
Grant from the City of Tshwane	36,275,090	-	**36,275,090**	36,275,090	**-**	
Total revenue	**45,274,513**	**28,067**	**45,302,580**	**45,798,544**	**495,964**	
Expenditure						
Employee costs	(17,597,427)	1,065,207	**(16,532,220)**	(9,642,733)	**6,889,487**	46
Remuneration for directors	(1,203,335)	(691,985)	**(1,895,320)**	(1,780,352)	**114,968**	46
Depreciation and amortisation	(991,825)	(102,258)	**(1,094,083)**	(938,689)	**155,394**	46
Finance costs	(195,717)	123,602	**(72,115)**	(71,237)	**878**	46
Other materials	(323,000)	(234,999)	**(557,999)**	(409,798)	**148,201**	46
Contracted Services	(17,218,884)	(339,909)	**(17,558,793)**	(3,327,821)	**14,230,972**	46
General Expenses	(6,505,960)	(1,086,089)	**(7,592,049)**	(4,032,435)	**3,559,614**	46
Total expenditure	**(44,036,148)**	**(1,266,431)**	**(45,302,579)**	**(20,203,065)**	**25,099,514**	
Operating surplus	**1,238,365**	**(1,238,364)**	**1**	**25,595,479**	**25,595,478**	
Loss on disposal of assets	-	-	**-**	(47,762)	**(47,762)**	46
Surplus before taxation	**1,238,365**	**(1,238,364)**	**1**	**25,547,717**	**25,547,716**	
Surplus for the year from continuing operations	**1,238,365**	**(1,238,364)**	**1**	**25,547,717**	**25,547,716**	
Transfer recognised - capital	169,565,806	(79,698,846)	**89,866,960**	70,728,209	**(19,138,751)**	46
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**170,804,171**	**(80,937,210)**	**89,866,961**	**96,275,926**	**6,408,965**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Receivables from exchange transactions	402,323	(6,018)	**396,305**	196,802	**(199,503)**	46
Receivables from non-exchange transactions	-	-	**-**	17,616,515	**17,616,515**	46
VAT receivable	-	-	**-**	3,115	**3,115**	46
Other receivables from exchange transactions	328,992	(219,354)	**109,638**	100,348	**(9,290)**	46
Cash and cash equivalents	11,853,500	22,320,828	**34,174,328**	63,906,333	**29,732,005**	46
	12,584,815	**22,095,456**	**34,680,271**	**81,823,113**	**47,142,842**	
Non-Current Assets						
Property, plant and equipment	379,753,742	(99,094,220)	**280,659,522**	231,632,720	**(49,026,802)**	46
Intangible assets	-	436,909	**436,909**	363,827	**(73,082)**	46
	379,753,742	**(98,657,311)**	**281,096,431**	**231,996,547**	**(49,099,884)**	
Total Assets	**392,338,557**	**(76,561,855)**	**315,776,702**	**313,819,660**	**(1,957,042)**	
Liabilities						
Current Liabilities						
Interest bearing liabilities	315,398	(315,398)	**-**	-	**-**	
Operating lease liability	59,795	(53,720)	**6,075**	156	**(5,919)**	46
Payables from exchange transactions	637,511	1,097,530	**1,735,041**	20,423,477	**18,688,436**	46
Unspent conditional grants and receipts	-	-	**-**	5,777,333	**5,777,333**	46
Employee Benefits	663,246	(234,033)	**429,213**	964,579	**535,366**	46
Provision	-	-	**-**	6,634,402	**6,634,402**	46
Rental deposit received	557,029	85,255	**642,284**	1,001,963	**359,679**	46
	2,232,979	**579,634**	**2,812,613**	**34,801,910**	**31,989,297**	
Non-Current Liabilities						
Interest bearing liabilities	911,452	(911,452)	**-**	-	**-**	46
Total Liabilities	**3,144,431**	**(331,818)**	**2,812,613**	**34,801,910**	**31,989,297**	
Net Assets	**389,194,126**	**(76,230,037)**	**312,964,089**	**279,017,750**	**(33,946,339)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	9,022,581	-	**9,022,581**	13,345,581	**4,323,000**	46
Accumulated surplus	380,171,545	(76,230,037)	**303,941,508**	265,672,169	**(38,269,339)**	46
Total Net Assets	**389,194,126**	**(76,230,037)**	**312,964,089**	**279,017,750**	**(33,946,339)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Customers and others	7,824,549	104,756	**7,929,305**	9,317,255	**1,387,950**	46
Operating grants	36,275,090	-	**36,275,090**	36,275,090	**-**	
Interest income	163,020	(125,427)	**37,593**	205,935	**168,342**	46
Capital grant	169,565,806	(105,076,420)	**64,489,386**	36,000,000	**(28,489,386)**	46
	213,828,465	**(105,097,091)**	**108,731,374**	**81,798,280**	**(26,933,094)**	
Payments						
Employee costs	(18,800,762)	373,222	**(18,427,540)**	4,570,867	**22,998,407**	46
Suppliers	(24,329,389)	15,797,360	**(8,532,029)**	-	**8,532,029**	46
Finance costs	(195,717)	124,480	**(71,237)**	(71,237)	**-**	46
	(43,325,868)	**16,295,062**	**(27,030,806)**	**4,499,630**	**31,530,436**	
Net cash flows from operating activities	**170,502,597**	**(88,802,029)**	**81,700,568**	**86,297,910**	**4,597,342**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(170,065,740)	112,271,716	**(57,794,024)**	(83,206,272)	**(25,412,248)**	46
Purchase of intangible assets	-	-	**-**	(3,249)	**(3,249)**	46
Net cash flows from investing activities	**(170,065,740)**	**112,271,716**	**(57,794,024)**	**(83,209,521)**	**(25,415,497)**	
Cash flows from financing activities						
Repayment of interest bearing liabilities	(315,398)	(1,270,318)	**(1,585,716)**	(1,542,105)	**43,611**	46
Net increase/(decrease) in cash and cash equivalents	121,459	22,199,369	**22,320,828**	1,546,284	**(20,774,544)**	
Cash and cash equivalents at the beginning of the year	11,732,042	121,458	**11,853,500**	62,360,049	**50,506,549**	46
Cash and cash equivalents at the end of the year	**11,853,501**	**22,320,827**	**34,174,328**	**63,906,333**	**29,732,005**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

Assets, liabilities, revenue and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the entity and the amounts have been rounded to the nearest Rand.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The entity assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset. The impairment is measured at the reporting date taking into account the different classes of debtors and the history of payment success of debtors.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

Land and Building is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

In the application of the accounting policies, which are described in note 1.5, management is required to make estimates and assumptions about the fair value of land and building that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. The fair values of land and building are determined after taking into account prevailing market rentals and occupation levels. An appropriate capitalization rate is used that reflects the risk associated with the particular building. Actual results may differ from these estimates.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Useful lives of property, plant and equipment

The entity's management determines the estimated useful lives and related depreciation charges for property, plant and equipment. This estimate is based on the pattern in which an asset's future economic benefits or services potential are expected to be consumed. Management will decrease the depreciation charges where useful lives is more than previously estimated useful lives.

Allowance for doubtful debts

On debtors, an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured at the reporting date taking into account the historical information about their default rates.

Use of estimates

The preparation of the financial statements in conforming to South African Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the entity's accounting policies.The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

Financial assets

The entity follows the guidance of GRAP 104 to determine when a financial asset is impaired. This determination requires judgement. In making this judgement, the entity evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost.

Accounting Policies

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Land and Building which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The following assets are carried at cost:

- Furniture and fixtures
- Motor vehicle
- Office Equipment
- IT Equipment

Accounting Policies

1.5 Property, plant and equipment (continued)

- Other Fixed assets

Land and building is carried at revaluation

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

In the current finacial year, the entity reviewed the useful life of other fixed assets and furniture and fixtures from 10 years to 15 and 15 years to 18 years respectively. The change in the estimated useful life has been accounted in change in accounting estimates as per GRAP 3.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Building	Straight line	30 years
Furniture and fixtures	Straight line	18 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	12 years
IT equipment	Straight line	12 years
Other fixed assets	Straight line	15 years
Land	Straight line	Indefinite

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity. The depreciation method applied to an asset is reviewed on an indicator basis and if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The entity assesses at each reporting date whether there is any indication that the entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

1.5 Property, plant and equipment (continued)

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 4).

Assets under construction

Management has capitalised detailed design, construction supervision and construction on Townlands, Sunnyside, Chantelle and Timberlands projects.

1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

The entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.This may happen when another public sector entity transfers, to an entity in a non-exchange transaction, intangible assets such as airport landing rights, licences to operate radio or television stations, import licences or quotas or rights to access restricted resources. A private citizen, for example, a Nobel Prize winner, may bequeath his or her personal papers, including copyright to his or her publications to the national archives in a non-exchange transaction. The City of Tshwane granted the entity(Housing Company Tshwane) the rights to develop social housing units on the following land parcels:

- ERF 1118, Arcadia (Timberland)
- Portion 38 and portion 124 of the farm of Hartebeeshoek 303 – JR, Chantelle Ext 39
- ERF 708, Portion 1 of ERF 709, Portion 2 of Erf 709 and the remaining extent of erf 709, sunny side.
- Extension of the developmental rights on the portion of the remainder of 6 of farm Pretoria town and townlands 351 JR

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

Accounting Policies

1.6 Intangible assets (continued)

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Subsequent Measurement

Intangbile assets will subsequently be carried at the revaluation method. The revalued amount, being its fair value at the date of the revaluation less any subsequent accummulated amortisation and any subsequent accumulated impairment losses.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years
Development rights	30 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised.

1.7 Financial instruments

Financial instruments are recognised on the entity's financial position when the entity becomes a party to the contractual provision of the instrument which gives rise to financial assets of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Accounting Policies

1.7 Financial instruments (continued)

A financial asset is:
- cash;
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Classification

The classification of financial assets depends on their nature and purpose and is determined at the time of initial recognition.

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Interest bearing liabilities	Financial liability measured at amortised cost
Rental deposit received	Financial liability measured at amortised cost

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transactions.

The entity recognises financial assets using trade date accounting.

Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following category:
- Financial instruments at amortised cost.

The amortised cost of financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility in the case of a financial asset.

Receivables from exchange transactions

Debtors are initially recognised at fair value and subsequently measured at amortised costs using the effective interest method, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the entity will not be able to collect all amounts due according to the original terms of the debtors.

The impairment is measured as the difference between the debtor's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred), discounted at the effective interest rate. The debtor's carrying amount is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit. An estimate is made for doubtful debts at reporting date taking into account different classes of debtors and their historical information about default rates.

Interest bearing liabilities

Interest bearing liabilities are initially measured at fair value and are subsequently measured at amortised costs, using the effective interest rate method.

Payables from exchange transactions

Payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

These are initially measured at fair value and subsequently recorded at amortised cost. For cash flow purposes cash and cash equivalents include cash on hand.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the entity has transferred substantially all risks and rewards of ownership, or when the entity loses control of contractual rights that comprise the assets.

Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or when it expires.

Financial risk management

The entity has exposure to the following risk from its use of financial instruments:
- Credit risk;
- Liquidity risk;
- Interest rate risk
- Price risk

Accounting Policies

1.7 Financial instruments (continued)

This note presents information about the entity's exposure to each of the above risk, the entity's objectives, policies and processes for measuring and managing risk, and entity's management of capital. Further quantitative disclosures are included throughout these financial statements. The board of directors has overall responsibility for the establishment and oversight of the entity's risk management framework. The entity's risk management policies are established to identify and analyse the risks faced by the entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and the entity's activities. The entity aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the entity if tenants or counterparty to a financial instrument fails to meet its contractual obligations and this arises mainly due to tenants. Potential concentrations of credit risk consist mainly of cash and cash equivalents.To mitigate the risk, tenants are sent reminders towards the end of the month about their rental payment.

Liquidity risk

Liquidity risk is the risk that the entity will not be able to meet its financial obligations when are due. The entity's approach to managing liquidity is to ensure that it always has sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the entity's reputation. The entity receives grant from the City of Tshwane every year based on budget requirements.

Interest rate risk

The entity has adopted a policy of ensuring that the entity's income and operating cash flows are substantially independent of changes in the market interest rates. The interest rate risk arise from long-term borrowing from National Housing Finance Corporation (NHFC). Interest rate trends are constantly monitored and appropriate steps taken to ensure that the exposure to the effects of changes in the level of interest is limited. The policy is to minimise interest rate cash flows risk exposure on long-term borrowings.

Price risk

The entity manages price risk with regards to rentals by increasing rental on an annual basis i.e. July (as per the lease agreements). Other price risk factors from suppliers and contractors are largely independent of HCT, but budget allowances are made annually.

Capital management

The entity's objectives when managing capital is to safeguard the entity's ability to continue as a going concern in order to provide benefits for the other stakeholders and to maintain an optimal capital structure to reduce cost of capital. The capital structure of the entity consists of loans and reserves as disclosed in the Statement of Financial Position.

Gains and losses

For financial assets and financial liabilities measured at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

Accounting Policies

1.7 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

1.8 Tax

Taxation

The entity is exempted from tax in terms of section 10(1)a of the Income tax Act.

VAT

Revenue, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on the purchases or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or part of the expense item applicable.
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from or payable to the taxation authority is reported separately from other receivables or payables in the annual statement of financial position.

The entity pays VAT on the invoice basis under category C - every month

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessor

Operating lease revenue is not recognised as revenue on a straight-line basis over the lease term since the lease term is for 12 months and reviewed annually between HCT and tenants.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue. The difference between the amounts recognised as income and the contractual receipts are recognised as an operating lease asset or liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This liability is not discounted.

Accounting Policies

1.10 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the entity; or
- the number of production or similar units expected to be obtained from the asset by the entity.

Designation

At initial recognition, the entity designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of an entity's objective of using the asset.

The entity designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The entity designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the entity expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the entity designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the assets's remaining service potential. HCT uses the restoration costs approach to determine the value in use.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.11 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Accounting Policies

1.11 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement, or in case of accumulating absences, when absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made and for senior management the bonus is approved by the board. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Accounting Policies

1.11 Employee benefits (continued)

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.11 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.12 Provisions and contingencies

Provisions are recognised when:
- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance costs.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are not recognised for future operating surplus.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

The entity recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

1.13 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Accounting Policies

1.13 Commitments (continued)

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.14 Revenue from exchange transactions

An exchange transaction is one in which the municipal entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Income in respect of housing rental and levies is accrued monthly and recognised on the statement of financial performance.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of tender goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The entity sells tender documents to potential bidders.

Accounting Policies

1.14 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Rental Income

Revenue from rental of properties is not recognised on a straight-line basis since the lease term is only for 12 months as per the lease agreement. The leases are reviewed at the end of each financial period, 30 June.

1.15 Revenue from non-exchange transactions

A revenue from non-exchange transactions is when the entity receives values from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic potential must be returned to the transferor.

Control of an asset arise when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Income received from conditional grants, donations and subsidies is recognised to the extent that the entity has complied with any of the criteria, conditions embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Grants or receipts of a revenue nature, income is transferred as revenue to the statement of financial performance to the extent that the criteria, conditions or obligations have been met.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity.

When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the entity recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The entity recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.16 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Comparative figures are reclassified or restated as necessary to afford a proper and more meaningful comparison of results, as set out in the affected notes to the financial statements.

1.18 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred by the municipal entity otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No.56 of 2003), and includes:

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

Accounting Policies

1.18 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised in terms of section 32 of the MFMA.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.22 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the entity has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.23 Budget information

Entity are typically subject to budgetary limits in the form of appropriations or budget authorisation's (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2018 to 30/06/2019.

The annual financial statements and the budget are prepared on a comparable basis, a separate statement is prepared called the "Statement of Comparison of Budget and Actual Amounts". The Statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

The annual financial statements and the budget are on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget has been included in the annual financial statements. Refer to note 40.

Accounting Policies

1.23 Budget information (continued)

A comparable basis means that the budget and annual financial statements:
- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

1.24 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity.

The entity is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the entity is exempt from the disclosures in accordance with the above, the entity discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Accounting Policies

1.26 Change in accounting estimates

A change in accounting estimate will be accounted for in the current period and in the future periods if it affects the future periods. The effect of the change in estimate would be accounted for in surplus or deficit or against the asset or liability, where applicable, in the specific period in which the change occurs.

A change in accounting estimate will always be made at the beginning of the period and the depreciation for that period onwards will be based on the revised estimate over the remaining useful life. The effect will be calculated based on the carrying amount beginning of the year divided by the remaining useful life of assets.

1.27 Prior year errors

Prior year errors are omissions from and misstatements in an entity's financial statements for one or more prior periods arising from failure to use or the misuse of reliable information that was available when the financial statements for that period were issued, and could have been reasonably expected to be taken into account in those financial statements.

All prior year errors are corrected retrospectively to the earliest period applicable. Comparative amounts for the prior years in which the error occurred are restated.

1.28 Operating Expenses

Operating expenses are decreases in economic benefits of service potential during the reporting period in the form of outflows or consumption of assets or incurrence's of liabilities that result in decreases in net assets, other than those relating to distributions to owners. The operating expenses relate to those expenses incurred in the course of undertaking the functions and activities of the entity. Items disclosed separately are those required by financial reporting standards.

The operating expenses are recognised in the statement of financial performance, in the determination of the results for the operating period, when and only when:

(a) it is probable that the consumption or loss of future economic benefits resulting in a reduction in assets and/or an increase in liabilities has occurred; and

(b) the consumption or loss of economic benefits can be measured.

1.29 Accumulated surplus

Retained earnings or accumulated surplus/(deficit) being the cumulative effect of differences between revenue and expenditure as per statement of financial performance.

2.

Accounting Policies

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the entity has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

The impact of the amendment is not material.

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The entity has adopted the amendment for the first time in the 2019 annual financial statements.

The impact of the amendment is not material.

GRAP 21 (as amended 2016): Impairment of non-cash-generating assets

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:
- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The entity has adopted the amendment for the first time in the 2019 annual financial statements.

The impact of the amendment is set out in note Changes in Accounting Policy.

GRAP 26 (as amended 2016): Impairment of cash-generating assets

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:
- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

Accounting Policies

3. New standards and interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 April 2018.

The entity has adopted the amendment for the first time in the 2019 annual financial statements.

The adoption of this amendment has not had a material impact on the results of the entity, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:
- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The entity has adopted the amendment for the first time in the 2019 annual financial statements.

The impact of the amendment is not material.

The impact of the directive is not material.

3.2 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2019 or later periods:

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

Accounting Policies

3. New standards and interpretations (continued)

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The entity expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

Accounting Policies

3. New standards and interpretations (continued)

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The entity expects to adopt the interpretation for the first time in the 2019 annual financial statements.

It is unlikely that the interpretation will have a material impact on the entity's annual financial statements.

3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2019 or later periods but are not relevant to its operations:

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:
- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

Accounting Policies

3. New standards and interpretations (continued)

The effective date of the standard is not yet set by the Minister of Finance.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

Figures in Rand	2019	2018

4. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2,563,000	-	2,563,000	2,900,000	-	2,900,000
Buildings	22,300,000	-	22,300,000	18,900,000	(630,000)	18,270,000
Building: asset under construction	204,715,820	-	204,715,820	121,802,250	-	121,802,250
Furniture and fixtures	533,713	(262,977)	270,736	502,938	(282,054)	220,884
Motor vehicles	182,728	(106,733)	75,995	182,727	(70,187)	112,540
Office equipment	149,194	(55,361)	93,833	123,682	(44,740)	78,942
IT equipment	424,720	(147,737)	276,983	414,190	(135,409)	278,781
Other fixed assets	1,786,334	(449,981)	1,336,353	1,667,533	(345,800)	1,321,733
Total	**232,655,509**	**(1,022,789)**	**231,632,720**	**146,493,320**	**(1,508,190)**	**144,985,130**

Reconciliation of property, plant and equipment - June 2019

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Impairment reversal	Total
Land	2,900,000	-	-	(337,000)	-	-	2,563,000
Building	18,270,000	-	-	3,400,000	(630,000)	1,260,000	22,300,000
Building: asset under construction	121,802,250	82,913,570	-	-	-	-	204,715,820
Furniture and fixtures	220,884	72,916	(6,248)	-	(16,816)	-	270,736
Motor vehicles	112,540	-	-	-	(36,545)	-	75,995
Office equipment	78,942	25,513	-	-	(10,622)	-	93,833
IT equipment	278,781	75,472	(41,515)	-	(35,755)	-	276,983
Other fixed assets	1,321,733	118,801	-	-	(104,181)	-	1,336,353
	144,985,130	**83,206,272**	**(47,763)**	**3,063,000**	**(833,919)**	**1,260,000**	**231,632,720**

Reconciliation of property, plant and equipment - June 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Land	2,900,000	-	-	-	2,900,000
Buildings	18,900,000	-	-	(630,000)	18,270,000
Building: asset under construction	46,354,946	75,447,305	-	-	121,802,251
Furniture and fixtures	255,647	-	-	(34,763)	220,884
Motor vehicles	149,086	-	-	(36,546)	112,540
Office equipment	89,319	-	-	(10,377)	78,942
IT equipment	324,598	-	(10,013)	(35,804)	278,781
Other fixed assets	1,350,779	162,480	(24,673)	(166,853)	1,321,733
	70,324,375	**75,609,785**	**(34,686)**	**(914,343)**	**144,985,131**

Figures in Rand	2019	2018

4. Property, plant and equipment (continued)

Revaluations

Eloff Building, being the remaining extent of Erf 2599 and is situated at the corner of Nana Sita and Paul Kruger Street, within the Pretoria Central Business District. It has 91 residential and 4 commercial units for rental purposes. The property was transferred to the company (HCT) by the City of Tshwane at no cost in 2001. The initial recognition amount comprised, inter alia, of the capitalised grant to the value of the building transferred and the cost of refurbishing the former office block to residential units to meet affordable rental accommodation and earn rental income. There was also a loan raised from NHFC to refurbish the building. The Building serves as security over the loan granted to the company as per note **14**. No other assets are pledged as security.

The fair value of the building has been determined by management , having regard, inter alia, to the proposed valuation by independent sworn appraiser. The valuation was performed using income approach taking into account income generated from rentals, occupation levels and capitalisation rates. The valuer holds a recognised professional qualification and has recent experience in property valuations. The capitalisation rate applied to the property is **12%** and movement is reflected as a revaluation reserve in the Statement of Financial Position as per note **12**.

The effective date of the revaluations was 30 June 2019. Revaluations was performed by Mr Curtis Mugari, Candidate Valuer (National Diploma: Real Estate (UJ) and Mr Mugari is not connected to the entity.

Land and buildings are re-valued independently every **2** years with the last revaluation done at 30 June 2019.

Repairs and maintenance on the building

Amount spent on service providers	347,562	500,004
Material bought and used	25,344	12,900
Time spent by employees	1,091,489	811,379
	1,464,395	**1,324,283**

Reconciliation of Work-in-Progress - June 2019

	Buildings	Total
Opening balance	121,802,251	121,802,251
Additions/capital expenditure	82,913,569	82,913,569
	204,715,820	**204,715,820**

Reconciliation of Work-in-Progress - June 2018

	Buildings	Total
Opening balance	46,354,946	46,354,946
Additions/capital expenditure	75,447,305	75,447,305
	121,802,251	**121,802,251**

A register containing the information required by section 96 of the Municipal Finance Management Act is available for inspection at the registered office of the entity.

Figures in Rand	2019	2018

4. Property, plant and equipment (continued)

Carrying amount of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
Timberlands - budget contraints	3,757,999	2,509,143
Townlands - poor performance	27,214,836	73,581,460
Chantelle - project under construction	43,631,861	43,858,841
	74,604,696	**119,949,444**

In the current finacial year, the entity reviewed the useful life of other fixed assets and furniture and fixtures from 10 years to 15 and 15 years to 18 years respectively. The change in the estimated useful life has been accounted in change in accounting estimates as per GRAP 3, note 36.

5. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	19,569	(16,504)	3,065	16,320	(10,910)	5,410
Rights to use COT Land	459,936	(99,174)	360,762	459,936	-	459,936
Total	**479,505**	**(115,678)**	**363,827**	**476,256**	**(10,910)**	**465,346**

Reconciliation of intangible assets - June 2019

	Opening balance	Additions	Amortisation	Impairment loss on valuation	Total
Computer software	5,410	3,249	(5,594)	-	3,065
Rights to use COT Land	459,936	-	(15,331)	(83,843)	360,762
	465,346	**3,249**	**(20,925)**	**(83,843)**	**363,827**

Reconciliation of intangible assets - June 2018

	Opening balance	Additions	Amortisation	Total
Computer software	10,835	-	(5,425)	5,410
Rights to use COT Land	-	459,936	-	459,936
	10,835	**459,936**	**(5,425)**	**465,346**

The entity has development rights over the following pieces of erven which are in various stages of development:

- ERF 118, Arcadia (Timberlands)
- Hartebeeshoek 303 - JR, Chantelle ext 39 portion 28
- Hartebeeshoek 303 - JR, Chantelle ext 39 portion 124
- Pretoria Town, Townlands 351 JR (Proposed as Pretoria ext 14 and also known as Townlands)
- ERF 708, Portion 1 of ERF 709, Portion 2 of Erf 709 and the remaining extent of erf 709, Sunnyside.

The value of the development rights were determined in reference to the market and represents the fair value based on the information available. The last revaluation was done on the 30 June 2019.

No intangible assets are pledged as security.

Figures in Rand	2019	2018

6. Operating lease liability

Office rental and copier equipment	156	6,231

Operating lease liability represent rentals payable by the entity for its copier machine. This lease was negotiated for a term of 3 years commencing from 01 July 2017 to 30 June 2020 and at the end of lease the machine reverts back to the owner Velaphanda Trading and Projects. The lease has no escalation clause per annum for the period of 3 years.

	156	6,231

Authorised operational expenditure commitment

Operating lease commitment - as lessee (expense)		
within one year	71,501	71,501
in second to fifth year inclusive	-	71,501
	71,501	**143,002**

7. Other receivables from exchange transactions

Prepayments	13,264	610
Deposits paid	87,084	99,028
	100,348	**99,638**

Receivables include deposit paid to City of Tshwane on water and electricity account.

8. Receivables from exchange transactions

Housing Company Tshwane has a consolidated account billing system. The division of debtors per service category is done on a pro-rata basis.

Housing rentals & levies	1,182,456	1,120,289
Allowance for impairment	(985,654)	(925,038)
	196,802	**195,251**

Credit Risk Management of Trade and other receivables

Trade receivables comprise tenants who rent the flats. Management evaluates credit risk of tenant on an ongoing basis. Credit risk of tenants is conducted using the system called Tenant Profile Network (TPN) taking into account their financial position, credit profile and other factors. Tenants should pay rental in advance and if the payment is not received by the 7th of each month then 2% interest rate is charged on outstanding balances.

The City of Tshwane has transferred Clarina Complex to Housing Company Tshwane in July 2013 and Silwekroon complex in July 2016 for management. The complex is utilised to provide alternative accommodation to ex-Schubart Park residents as per the Schubart Park Court order. The order compels the City of Tshwane to provide rent free accommodation to tenants while in the process of refurbishing Schubart Park Complex.

The vetting and confirmation process to identify the ex-Schubart Park residents is conducted by Human Settlement Department from the City of Tshwane and Housing Company Tshwane allocate units to tenants once the vetting process is finalised. Clarina tenants are charged a levy fee of R576 per month and they have to pay before the 7th of each month otherwise they are charged R50 interest.

Figures in Rand	2019	2018

8. Receivables from non-exchange transactions (continued)

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither due nor impaired can be assessed by reference to historical information about counterparty default rates:

Trade receivables by classification:

	June 2019		June 2018	
Housing rentals & levies	Commercial	Residential	Commercial	Residential
Housing rentals	1,916	146,293	42,425	179,294
Provision for doubtful debts	(1,597)	(121,949)	(27,160)	(118,803)
Subtotal	319	24,344	15,265	54,406
Housing Levies	-	1,034,209	-	898,455
Provision for doubtful debts	-	(862,108)	-	(779,075)
Total	**319**	**196,445**	**15,265**	**179,871**

Advertising		
Rental of advertising space	38	115
Housing rental ageing: Commercial		
Current (0 - 29 days)	1,916	13,875
30 - 59 days	-	549
60 - 89 days	-	539
90 - 119 days	-	538
120 - 365 days	-	26,924
	1,916	**42,425**
Housing rental ageing : Residential		
Current (0 - 29 days)	46,391	54,405
30 - 59 days	13,475	25,542
60 - 89 days	9,897	11,848
90 - 119 days	9,775	11,014
120 - 365 days	66,755	76,485
	146,293	**179,294**
Housing levies ageing		
Current (0 - 29 days)	87,694	79,476
30 - 59 days	89,088	80,221
60 - 89 days	87,787	77,576
90 - 119 days	88,580	75,454
120 - 365 days	681,060	585,728
	1,034,209	**898,455**
Advertising ageing		
Current (0 - 29 days)	38	115

Figures in Rand	2019	2018

8. Receivables from non-exchange transactions (continued)

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 29 days past due are not considered to be impaired. At 30 June 2019, R 136,039 (2018: R 147,871) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

29 days past due	136,039	147,871

Trade and other receivables impaired

As of 30 June 2019, trade and other receivables were impaired and provided for.
The amount of the provision was R985,654 as of 30 June 2019 (30 June 2018: R925,038).

The creation and release of allowances for impaired receivables have been included in operating expenses in surplus or deficit. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Over 120 to 150 days	747,815	689,137

Reconciliation of allowance for impairment of trade and other receivables

Opening balance	(925,038)	(750,395)
Amounts recovered	37,230	10,292
Amounts written off as uncollectable	970,103	784,913
Increase/decrease in allowance recognised in surplus or deficit	(1,067,949)	(969,848)
	(985,654)	**(925,038)**

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

9. Receivables from non-exchange transactions

Government grants and subsidies	17,616,515	-

10. VAT receivable

VAT	3,115	5,113

The entity pays VAT on the invoice basis under category C - every month.

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	7,243	9,004
Bank balances	63,899,090	62,351,045
	63,906,333	**62,360,049**

Cash and cash equivalents held by the entity that are not available for use by the economic entity	1,227,065	932,217

The money is held to refund the tenants when they vacate the unit, or to set off amounts owed.

Figures in Rand	2019	2018

11. Cash and cash equivalents (continued)

The entity had the following bank accounts with ABSA Bank Limited

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
9110 408 066 - Eloff deposit	1,227,065	932,217	808,818	1,227,065	932,217	808,818
4065 722 829 - Eloff Cheque	7,455,931	3,615,713	2,147,369	7,455,931	3,615,713	2,147,369
4057 481 879 - Cheque	53,069,156	43,891,948	36,430,357	53,069,156	43,891,948	36,430,357
4091 569 887 - Townlands Cheque	2,146,938	13,911,167	(203)	2,146,938	13,911,167	(203)
Total	**63,899,090**	**62,351,045**	**39,386,341**	**63,899,090**	**62,351,045**	**39,386,341**

12. Revaluation reserve

Revaluation surplus for Eloff building has been transferred to revaluation reserve.

Opening balance	9,022,581	9,022,581
Change during the year	4,323,000	-
	13,345,581	**9,022,581**

Refer to note 4 for details on revaluation.

Revaluation surplus relating to property, plant and equipment

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Transfers from City of Tshwane	5,777,333	22,889,027

Movement during the year

Balance at the beginning of the year	22,889,027	10,839,797
Additions during the year	36,000,000	104,152,627
Income recognition during the year	(70,728,209)	(84,845,123)
Amount owed by the City of Tshwane	17,616,515	-
VAT on grant paid/owed to SARS	-	(7,258,274)
	5,777,333	**22,889,027**

The unspent grant is a capital grant from the City of Tshwane to assist the entity with the upgrade of bulk service for Chantelle and Sunnyside projects respectively. The entity received capital grant funding of **R36,000,000** for Townlands, Chantelle extention 39 and Sunnyside projects. The unspent grant balance of **R5,777,333** will be utilised in the new financial year (2019/2020) on the commitment raised.

Notes to the Financial Statements

Figures in Rand	2019	2018

14. Interest- bearing liability

At amortised cost		
National Housing Finance Corporation Limited The loan is secured, bears interest at 14% per annum, and is repayable in 67 months with the average of monthly payments of **R44,190.24.** The loan is secured by a mortgage bond over the Land and Building. The loan was settled in October 2018 to save on interest.	-	1,542,105
Non-current liabilities		
At amortised cost	-	1,226,707
Current liabilities		
At amortised cost	-	315,398

Figures in Rand	2019	2018

15. Employee Benefits

Reconciliation of employee benefits - June 2019

	Opening Balance	Additions	Utilised during the year	Total
Leave provision	416,966	176,214	(55,357)	537,823
Accrued salaries & directors fees	12,247	268,967	(12,247)	268,967
Post-employment benefits	-	157,789	-	157,789
	429,213	**602,970**	**(67,604)**	**964,579**

Reconciliation of employee benefits - June 2018

	Opening Balance	Additions	Utilised during the year	Total
Leave provision	355,934	177,123	(116,091)	416,966
Employee benefit cost	-	12,247	-	12,247
	355,934	**189,370**	**(116,091)**	**429,213**

Short-term employee benefits include leave entitlement for employees as at 30 June 2019, leave payout for the employees who resigned and passed on during the period under review and accrued salaries and directors fees. Leave entitlement is only payable in cash upon resignation. .

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.The entity implemented post-employment benefits for its employees on the 01 May 2019. The entity and its employees contribute to various pension and provident funds. The retirement benefits are calculated in accordance with the rules of the funds.

Current contributions are charged against the relevant expense accounts of the entity at a percentage of the basic salary paid to employees. Most employees of the entity are members of one of the following funds. The entity's contributions to these funds are reflected as an expense in the financial statements

- Tshwane Municipal Provident Fund - 2 (5%) of the entity's employees are members of this fund.
- Municpal Gratuity Fund - 2 (5%) of the entity's employees are members of this fund.
- Municipla Employee Pension Fund - 25 (68%) of the entity's employees are members of this fund
- National Fund for Municipal Workers - 8 (11 %) of the Municipality's employees are members of this fund.

Due to the nature of this funds, the lack of information and the fact that assets are not specifically associated to meet the obligations in respect of individual employers in terms of paragraph 30 of grap 25. The fund is treated as defined contribution fund. The total contribution is included in employee related costs, note 34.

16. Provision

Retention on Chantelle & Sunnyside contract	6,634,402	2,488,612

Bluroca & Amibex were appointed for the upgrade of bulk services on Sunnyside and Chantelle Projects respectively. As part of the signed agreement, the entity must retain 10% of the contract value as retention and the money will be paid 12 months after completion.

Notes to the Financial Statements

Figures in Rand	2019	2018

17. Rental deposit received

Tenants' deposit	1,001,963	607,476

In terms of the lease agreement between HCT and tenants, rental deposit is equivalent to twice monthly rental. The rental deposit is refunded to tenants when they vacate the unit.

18. Payables from exchange transactions

Trade payables	19,717,509	409,096
Advanced rental income	352,358	420,757
Accrued expenses - SARS (PAYE, UIF & SDL)	144,386	136,389
Rental received on behalf of COT	197,212	197,018
Unallocated debtors	9,379	5,199
Accrued expenses - creditors	2,633	560,580
	20,423,477	**1,729,039**

Trade payables increased by R19, 3 million as compared to the previous period as the capital expenditure on Chantelle and Townlands projects was not paid at the end of the financial year 2018/ 2019. The invoices were received after the 25th of June 2019 and had to be authorised by responsible officials.

19. Financial instruments disclosure

Categories of financial instruments

June 2019

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	196,802	196,802
Cash and cash equivalents	63,906,333	63,906,333
	64,103,135	**64,103,135**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	19,864,529	19,864,529
Rental deposit received	1,001,963	1,001,963
	20,866,492	**20,866,492**

June 2018

Financial assets

	At amortised cost	Total
Cash and cash equivalents	62,360,049	62,360,049
Receivables from exchange transactions	195,251	195,251
	62,555,300	**62,555,300**

Financial liabilities

Notes to the Financial Statements

Figures in Rand	2019	2018

. **Financial instruments disclosure (continued)**

	At amortised cost	Total
Payables from exchange transactions	1,106,067	1,106,067
Interest bearing liabilities	1,542,105	1,542,105
Rental deposit received	607,476	607,476
	3,255,648	**3,255,648**

20. Revenue

Rental of facilities and equipment	9,097,053	8,505,944
Other income	220,466	67,690
Interest received	205,935	162,788
Government grants & subsidies	107,003,299	116,120,213
	116,526,753	**124,856,635**

The amount included in revenue arising from exchanges of goods or services are as follows:

Rental of facilities and equipment	9,097,053	8,505,944
Other income	220,466	67,690
Interest received	205,935	162,788
	9,523,454	**8,736,422**

The amount included in revenue arising from non-exchange transactions is as follows:

Transfer revenue

Government grants & subsidies	107,003,299	116,120,213

The rental revenue has increased as compared to the previous financial year as the City of Tshwane has transferred 34 units (Hecules and Noordepark) to HCT for management.

Figures in Rand	2019	2018

21. Government grants and subsidies

Operating grants		
City of Tshwane	36,275,090	31,275,090
	36,275,090	31,275,090
Capital grants		
Social Housing Regulatory Authority (SHRA)	-	20,857,018
Gauteng Department of Human Settlement (GDHS)	-	8,287,908
City of Tshwane	70,728,209	55,700,197
	70,728,209	84,845,123
	107,003,299	**116,120,213**

Conditional and unconditional

In September 2018, the entity received capital grant funding from the City of Tshwane to the value of **R36,000,000** for the upgrading of bulk infrastructure and construction of 1,200 units at Chantelle extension 39, Sunnyside and Townlands projects respectively. The additional capital grant funding to the value of **R17,616,515** was approved by Mayoral Committee on the 30 May 2019.

Included above is the grant received:

Conditional grants received	70,728,209	84,845,123
Unconditional grants received	36,275,090	31,275,090
	107,003,299	**116,120,213**

In terms of the Service Delivery Agreement (SDA) approved by Council on the 30 May 2019 between Housing Company Tshwane(HCT) and the City of Tshwane, HCT had to ensure that the following projects are implemented as per the Business Plan:

- Chantelle X 39 -100% installation of bulk services
- Sunnyside project -100% installation of bulk services
- Townlands project - 98 units completed
- Timberlands project -30% detailed design completed
- Eloff, Clarina, Silwerkroon, Oosmont, Clarement, Danville and Capital Park - Management of 660 units

The SDA also outlined the City of Tshwane's responsibility as follows:

- to make land available (for greenfield projects) or buildings (brownfields) in the form of written Land Availability Agreement to HCT when it is ready to implement the projects listed above.
- to provide financial assistance in terms of the approved budget or availability of funds to assist HCT to perform its obligations.
- to transfer all the rental housing stock in its jurisdiction falling within the mandate of the City of Tshwane to HCT subject to the signing of Transfer Agreement.
- The SDA clearly stipulates that if the money is not utilised, it must be returned to the City of Tshwane. As a result the grant is classified as a conditional grant.

Notes to the Financial Statements

Figures in Rand	2019	2018

22. General expenses

Advertising	423,834	348,983
Auditors remuneration	850,608	808,335
Bank charges	40,682	19,401
Computer expenses	24,743	89,018
Consulting and professional fees	546,800	996,951
Penalty and interest	755	628,035
Gifts	541	-
Insurance	135,455	103,021
Motor vehicle expenses	40,113	23,412
Postage and courier	535	740
Printing and stationery	195,957	174,362
Protective clothing	196,045	450
Repairs and maintenance	57,559	16,244
Staff welfare	47,676	44,522
Subscriptions and membership fees	116,083	110,348
Telephone and fax	400	950
Training	14,497	-
Travel - local	156,404	23,420
Rates & Taxes	106,171	115,278
Electricity	100,559	124,671
Cleaning	57,070	12,903
Coida	39,150	-
Cost of rendering services	3,090,157	3,492,486
	6,241,794	**7,133,530**

23. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Operating lease charges		
Premises		
• Contractual amounts	426,041	608,641
Equipment		
• Contractual amounts	71,501	71,501
	497,542	**680,142**
Loss on sale of property, plant and equipment	(47,762)	(32,659)
Depreciation and amortisation	938,689	919,768
Employee costs and remuneration of directors	11,423,085	7,625,802
Penalty and interest	704	628,035
Audit fees	850,608	808,335

Notes to the Financial Statements

Figures in Rand	2019	2018

24. Employee related costs and remuneration of directors

Basic	9,206,989	6,767,112
Travel & other allowance	928,475	497,814
Bonus payout	594,098	-
UIF - company contribution	59,840	50,144
SDL - company contribution	91,616	71,921
Leave payout	105,516	116,091
Leave provision	120,857	61,031
Telephone allowance	66,289	61,689
Employee benefit plans	249,405	-
	11,423,085	**7,625,802**

Detailed information on the remuneration of key personnel, refer to note 34.

Housing Company Tshwane implemented employee benefit plans on the 01 May 2019.

25. Debt impairment

Debt impairment	1,030,718	933,061

Clarina complex contributes 90% of debt impairment. Management is engaging with the City of Tshwane to find a collective solution on non-paying tenants as the City of Tshwane is paying for other ex-Schubart Park residing in other buildings.

26. Interest revenue

Interest revenue		
Bank	40,915	17,546
Interest on debtors	165,021	145,242
	205,936	**162,788**

27. Depreciation and amortisation

Property, plant and equipment	833,921	914,343
Intangible assets	104,768	5,425
	938,689	**919,768**

28. Finance costs

Non-current borrowings	71,237	241,127

Finance costs relates to interest on the loan with National Housing Regulatory Authority (NHFC).

29. Auditors' remuneration

Fees	850,608	808,335

Notes to the Financial Statements

Figures in Rand	2019	2018

30. Cash generated from operations

Surplus	96,275,926	107,290,546
Adjustments for:		
Depreciation and amortisation	938,689	919,768
Loss on disposal of assets	47,762	32,659
Debt impairment	1,030,718	933,061
Movements in operating lease assets and accruals	(6,075)	(7,745)
Movements in employee benefits	535,366	73,279
Other non-cash items	-	2,027
Changes in working capital:		
Receivables from exchange transactions	(1,551)	(68,636)
Consumer debt impairment	(1,030,718)	(933,061)
Other receivables from non-exchange transactions	(17,616,515)	-
Other receivables from exchange transactions	(710)	21,121
Payables from exchange transactions	18,694,437	(22,983,260)
VAT payables	-	(978,550)
Unspent conditional grants and receipts	(17,111,694)	12,049,230
VAT receivables	1,998	(5,113)
Provision	4,145,790	2,488,613
Rental deposit received	394,487	54,952
	86,297,910	**98,888,891**

31. Commitments

Authorised capital expenditure

Approved and contracted for:		
• Infrastructure	273,057,491	107,835,062
• Other	533,546	533,545
	273,591,037	**108,368,607**

Total capital commitments		
Approved and contracted for	273,591,037	108,368,607

The entity has four Greenfield projects in well situated Council land, one of which the development of the top structure (Townlands) is under way. Two projects (Chantelle and Sunnyside) currently have bulk infrastructure services being constructed, with Chantelle 86% completed and Sunny side 100% completed at the end of the financial year. The entity is currently packaging the projects for funding applications for top structure with Social Housing Regulatory Authority (SHRA).

The last one Timberlands which is located in the City center was not allocated any budget in the 2018/19 year, however, detailed design was completed.

Figures in Rand	2019	2018

32. Contingencies

Contingent Liability

Litigation matters:

HCT entered into a contract with Magic Labour for the construction and development of social housing units on Erf 3525 & 3526, Marabastad, and Pretoria. The project entails the development of a high-rise building that will yield 1,200 units. Magic Labour failed to deliver the required units as a result HCT terminated the contract due non-performance as stipulated on the contract. Magic Labour disputes the termination and claim an amount of **R41,654,855.50** in the form of a final account. The HCT has sourced legal opinion with regard to this matter.

The entity has terminated the employment contract of the previous COO due to misconduct and the matter has been referred to arbitration by the claimant. At this point in time the outcome of the case cannot be quantified as to whether the entity will be liable for settlement or not.

Contingent assets

During the previous three financial years (2016 to 2018), the entity has paid an output VAT amounting to **R13,280,951** to SARS on the capital grant received from both Social Housing Regulatory Authority (SHRA) and City of Tshwane. During the audit of VAT, it was discovered that the entity incorrectly submitted VAT invoices to both SHRA and the City of Tshwane which is contravention with section 11(2) of the VAT Act. Furthermore, in the previous three years (2015 to 2017), the entity has also claimed input VAT on the apportionment rate method amounting to **R5,146,729.62** without SARS' approval on the apportionment method which might pose a risk of SARS claiming back this amount from the entity.

On the 13 March 2018, the entity terminated the construction contract with Magic Labour Hire & Security Services due to poor performance. Management has quantified the value of latent defects discovered and is claiming **R6,801,204.06** from the Magic Labour Hire and construction guatantee which is held by Power Guarantee (Pty) Ltd.

Notes to the Financial Statements

Figures in Rand	2019	2018

33. Related parties

Relationships	
Controlling entity	City of Tshwane Metropolitan Municipality
Municipal entity under the same control	Tshwane Economic Development Agency (TEDA)
Compensation of board members and senior managers	Refer to note 34

Related party balances

Amounts included in Trade receivable/Trade payable regarding related parties		
Rental received on behalf of City of Tshwane	(197,212)	(197,018)
Deposit owed by the City of Tshwane (water & electricity)	23,400	23,400
Amount owed by HCT to City of Tshwane (water, sanitation, rates & taxes	(8,057)	-
Unspent conditional grants and receipts	5,777,333	22,889,027
	5,595,464	**22,715,409**

Related party transactions with parent municipality

Grant recognised as income	107,003,299	84,845,123
Rates and taxes	(375,851)	(373,247)
Water and electricity	(320,315)	(623,301)
	106,307,133	**83,848,575**

The entity benefited from the following services provided by related party at no cost:

- Use of risk management and internal audit resources from City of Tshwane
- Use of audit committee resources from City of Tshwane
- Use of network, telecommunication and server support provided by City of Tshwane
- Occupational Health and Safety services from City of Tshwane
- Insurance management by City of Tshwane
- The Director of Human Settlement has been seconded to HCT as the Acting COO from September 2017 until the labour matter with the former incumbent is concluded and the COO post is filled.
- Telephone service provided by City of Tshwane
- MSCOA implementation by City of Tshwane
- QPR - Performance Management Solution
- Use of office space
- Use of two motor vehicles for maintenance
- The entity received the rights to develop land owned by the City of Tshwane at no cost

34. Remuneration of Executive Managers and Board of Directors

Executive and Management

June 2019

	Basic	Telephone allowance	Travel and other allowance	Leave pay-out	Bonus	Provident/Pension fund	Total
Chief Executive Officer - L Mudau	312,994	6,000	37,500	-	-	28,687	385,181
Acting Chief Operations Officer - O Nyundu (seconded from COT)	-	-	92,974	-	-	-	92,974
Chief Finance Officer - G Ramorwesi	410,065	6,000	45,000	37,378	-	-	498,443
Finance Manager - L Makibinyane	813,585	13,292	121,000	-	76,918	36,090	1,060,885
Property Manager - W Ramotshela	582,944	13,292	64,900	-	53,266	25,827	740,229
Company Secretary - J Mokadikwa (resigned)	208,671	6,622	-	39,696	81,762	-	336,751
Company Secretary - C Mhlungu	44,894	1,000	4,833	-	-	7,830	58,557
	2,373,153	**46,206**	**366,207**	**77,074**	**211,946**	**98,434**	**3,173,020**

June 2018

	Basic	Telephone allowance	Travel and other allowances	Leave pay-out	Total
Finance Manager - L Makibinyane	751,925	12,763	121,000	-	885,688
Property Manager - W Ramotshela	544,124	12,763	61,014	-	617,901
Chief Operations Officer - W Campbell	-	-	-	55,547	55,547
Company Secretary - J Mokadikwa	387,800	12,763	-	-	400,563
Property Development Manager - J Mkhonto	213,113	4,254	23,759	61,241	302,367
	1,896,962	**42,543**	**205,773**	**116,788**	**2,262,066**

Non-executive

June 2019

	Directors' fees	Total
SST Kholong - Chair OPS	244,099	244,099
S Makhari - Chair FINRISK	224,693	224,693
MR Tshaka - Chair Social & Ethics	176,350	176,350
L Mashao - Chair REMCO	339,599	339,599
EH Mokoena	288,670	288,670
T Maluleka	199,081	199,081
E Monhla - Chair BOARD	307,860	307,860
	1,780,352	**1,780,352**

34. Remuneration of Executive Managers and Board of Directors (continued)

June 2018

	Directors' fees	Reimbursable travel allowance	Total
AJ Singh	68,596	7,691	76,287
SST Kholong	138,529	6,308	144,837
SMT Phetla	58,792	17,962	76,754
WP Rowland	68,596	-	68,596
M Matlou	64,629	-	64,629
S Makhari	68,311	-	68,311
MR Tshaka	43,049	-	43,049
L Mashao	85,800	-	85,800
EH Mokoena	58,595	-	58,595
T Maluleka	54,708	-	54,708
E Monhla	70,254	-	70,254
	779,859	**31,961**	**811,820**

35. Prior period restatement

During the previous financial year 2017/2018, the entity understated the depreciation on furniture and fittings with **R22,690**. The impairment disclosed in the previous financial year 2017/2018 was not in line with GRAP 104, paragraph 61 and 62. In the current financial year, the impairment was re-calculated in the line with the GRAP 104, paragraph 61 and 62 and resulted in reduction of **R47, 379**. The entity did not provide for retention on Chantelle and Sunnyside. The retention was accounted and impacted the provision by **R2,488,612**.

The effects of prior period error are as follows:

2018

Statement of Financial Performance

Revenue	**As previously reported**	**Correction of errors**	**Reclassification**	**Restated**
Rental of facilities and equipment	8,505,944	-	-	8,505,944
Other revenue	67,690	-	-	67,690
Interest received	162,788	-	-	162,788
Governmant grants and subsidies	113,631,602	2,488,611	-	116,120,213
	122,368,024	**2,488,611**	**-**	**124,856,635**
Expenditures				
Employee related costs	(6,813,982)	-	-	(6,813,982)
Remuneration of directors	(811,820)	-	-	(811,820)
Depreciation and amortisation	(897,076)	(22,692)	-	(919,768)
Finance costrment	(241,127)	-	-	(241,127)
Lease rentals on operating lease	(680,142)	-	-	(680,142)
Debt impairment	(980,440)	47,379	-	(933,061)
Loss on disposal of assets	(32,659)	-	-	(32,659)
General expenses	(7,133,530)	-	-	(7,133,530)
	(17,590,776)	**24,687**	**-**	**(17,566,089)**
Surplus for the year				
Surplus for the year	104,777,248	2,513,298	-	107,290,546

35. Prior period restatement (continued)

Statement of Financial Position

Current Assets	**As previously reported**	**Correction of errors**	**Reclassification**	**Restated**
Receivables from exchange transactions	147,871	47,380	-	195,251
VAT receivables	5,113	-	-	5,113
Other receivables	99,638	-	-	99,638
Cash and cash equivalents	62,360,049	-	-	62,360,049
	62,612,671	**47,380**	**-**	**62,660,051**
Non-current Assets				
Property, plant and equipment	142,519,211	2,465,919	-	144,985,130
Intangible asset	465,346	-	-	465,346
	142,984,557	**2,465,919**	**-**	**145,450,476**
Total Assets	205,597,228	2,513,299	-	208,110,527
Current Liabilities				
Interest bearing liabilities	315,398	-	-	315,398
Operating lease liability	6,231	-	-	6,231
Payables from exchange transaction	1,729,041	(2)	-	1,729,039
Unspent conditional grant	25,377,639	(2,488,612)	-	22,889,027
Employee benefits	429,213	-	-	429,213
Rental deposit received	607,476	-	-	607,476
Provision	-	2,488,612	-	2,488,612
	28,464,998	**(2)**	**-**	**28,464,996**
Non-current liabilities				
Interest bearing liabilities	1,226,707	-	-	1,226,707
Total liabilities	**29,691,705**	(2)	-	**29,691,703**
Net Assets	**175,905,523**	**2,513,301**	-	**178,418,824**
Revaluation reserve	9,022,581	-	-	9,022,581
Accumulated surplus	166,882,942	2,513,301	-	169,396,243
	175,905,523	**2,513,301**	**-**	**178,418,824**

Cash Flow Statement

Receipts	**As previously reported**	**Correction of errors**	**Reclassification**	**Total**
Cash receipts from customers	7,289,596	-	-	7,289,596
Grants	135,427,717	-	-	135,427,717
Interest Income	162,788	-	-	162,788
Other receipts	1,278,788	-	-	1,278,788
	144,158,889	**-**	**-**	**144,158,889**

35. Prior period restatement (continued)

Payments	As previously reported	Correction of errors	Reclassification	Total
Cash paid to suppliers	(40,089,102)	2,488,612	-	(37,600,490)
Cash paid to employees	(7,428,381)	-	-	(7,428,381)
Finance costs	(241,127)	-	-	(241,127)
Subtotal	(47,758,610)	2,488,612	-	(45,269,998)
Cash floow from operating activities	**94,400,279**	**2,488,612**	**-**	**98,888,891**
Cash Flow from inveting activities				
Purchase of property, plant and equipment	(73,121,173)	(2,488,612)	-	(75,609,785)
Cash flow from financing activities				
Repayment of interet bearing liabilities	(315,399)	-	-	(315,399)
Cash and cash equivalents at the end of the year				
Net increase(decrease in cash and cash equivalents	22,963,707	-	-	22,963,707
Cash and equivalents at the beginning of the year	39,396,342	-	-	39,396,342
	62,360,049	**-**	**-**	**62,360,049**

Disclosure note

During the previous financial year 2017/2018, the cost and accumuated depreciation of motor vehicle was omitted on **note 4**. The diclosure was corrected in the current financial year but had no impact on the closing balance of motor vehicle.

The effects of prior period error are as follows:

Motor vehicle	Cost as previously reported	Corrected cost	Corrected accumulated depreciation	Total
Motor vehicle	112,540	182,728	(70,187)	112,540

36. Change in accounting estimate

Property, plant and equipment

The useful life of other fixed assets and furniture and fitting was estimated in 2016 to be 10 years and 15 years respectively. In the current period, management has revised the estimate for other fixed assets from 10 years to 15 years and for furniture and fittings from 15 years to 18 years. The effect of this revision has decreased the depreciation charges from the current and future periods by **R72,696.50**.

37. Risk management

Capital risk management

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going-concern in order to provide benefits for the other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the entity consists of loans and reserves as disclosed in the Statement of Financial Position.

-	1,542,105

37. Risk management (continued)

Liquidity risk

Liquidity risk management ensures that the entity has sufficient liquid assets to be able to meet short-term liabilities. A cash flow forecast is maintanined which monitors actual and budgeted cash flow. The entity further manages liquidity through an ongoing review of future commitments.

The table below analyses the entity's non derivative financial liabilities which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

June 2019	Not later than one month	Later than one month but not later than three months	Later than three months but not later than one year	Later than one year but within ten years	Total
Payables from exchange transactions	19,864,529	-	-	-	19,864,529
Rental deposit received	-	-	-	1,001,963	1,001,963
	19,864,529	**-**	**-**	**1,001,963**	**20,866,492**

June 2018	Not later than one month	later than one month but not later than three months	Later than three months but not later than one year	Later than one year but within ten years	Total
Payables from exchange transactions	1,106,067	-	-	-	1,106,067
Interest bearing liabilities	44,619	87,730	378,791	1,030,965	1,542,105
Rental deposit received	-	-	-	607,476	607,476
	1,150,686	**87,730**	**378,791**	**1,638,441**	**3,255,648**

Credit risk

Credit quality of trade and other receivables

Credit risk consists mainly of cash deposits, cash equivalents and trade receivables.

Trade receivables comprises of tenants who rent flats from Housing Company Tshwane. The management evaluates credit risk relating to tenants on an ongoing basis. Credit risk of tenants is conducted using the system called Tenant Profile Network(TPN) taking into account their financial positions, credit profile and other factors. Tenants pay rental in advance and if the payment is not received by the 7th of each month then 2% interest rate is charged on outstanding amount.

The entity has considered the impact of changes in the credit risk by evaluating their assets and liabilities.

The City of Tshwane transferred Clarina Complex to Housing Company Tshwane in July 2013 and Silwekroon complex in July 2016 for management. The Clarina complex complex is utilised to provide alternative accommodation to ex-Schubart Park residents as per the Schubart Park Court order. The order compels the City of Tshwane to provide a rent free accommodation to tenants while in the process of refurbishing Schubart Park.

Financial instrument	June 2019	June 2018
Receivables from exchange transactions	196,802	195,251
Cash and cash equivalents	63,906,333	62,360,049

The vetting and confirmation process to identify the ex-Schubart Park residents is conducted by the Human Settlement department from the City of Tshwane and Housing Company Tshwane allocate units to tenants once the vetting process is finalised. Clarina tenants are charged a levy fee of R576 per month and they have to pay before the 7th of each month otherwise they are charged R50 interest.

37. Risk management (continued)

Market risk

Interest rate risk

As the entity has no significant interest-bearing assets, the entity's income and operating cash flows are substantially independent of changes in market interest rates.

The entity's interest rate risk arises from long-term borrowing from NHFC. As at 31 December 2018, Housing Company Tshwane had an interest borrowings of R0 (June 2018 : R1,542,105) at a fixed interest rate of 14% (NACM). In terms of the loan agreement, the loan expires on the 30 November 2023 but the entity had settled the loan in October 2018 to minimise interest rate cash flow risks exposure on the long-term financing.

Price risk

The entity manages price risk with regard to rentals by increasing rental amounts of flats on an annual basis i.e July (as per the revised lease agreements). Other price risk factors from our suppliers and contractors are largely independent of Housing Company Tshwane, but budget allowances are made annually by Housing Company Tshwane.

38. Going concern

We draw attention to the fact that at 30 June 2019, the entity had an accumulated surplus of R 265,672,169 and that the entity's total assets exceed its liabilities by R 279,017,750.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the entity to continue as a going concern is dependent on a number of factors. The most significant of these is the support from the parent municipality (City of Tshwane) and the City of Tshwane has no intention to liquidate the entity. The entity is generating additional revenue by renting out the advertising space at Eloff Building.

39. Events after the reporting date

The Accounting Officer is unaware of any matter or circumstance arising since the period ending 30 June 2019.

40. Unauthorised expenditure - budget overspending

Metroprojects (Pty) Ltd - Timberlands project	3,757,999	-
Less: Amounts condoned by the Board	(3,757,999)	-
	-	-

Details of Unauthorised expenditure - current year

Disciplinary steps taken		
Under investigation and consequence management will be monitored by the Board	3,757,999	-

41. Fruitless and wasteful expenditure

Opening balance	624,744	377
Interest on late payment to SARS (VAT)	584	624,367
Defects on construction site - Townlands	6,801,880	-
Recoveries	(584)	-
Less: Amounts condoned by the Board	(7,426,624)	-
Closing balance	-	**624,744**

Figures in Rand

41. Fruitless and wasteful expenditure (continued)

Details of fruitless and wasteful expenditure - current year

Disciplinary steps taken		
Under investigation and consequence management will be monitored by the Board	7,426,624	-
Recoveries	584	-
	7,427,208	**-**

42. Irregular expenditure

Opening balance	27,292,491	25,822,940
Procurement splitting	553,178	1,469,551
Non-compliance with MFMA, sec 18(a) - advert less that 7 days	101,901	-
Non-compliance with MFMA, sec 29 - BAC composition	121,119,859	-
Non-compliance with regulation 36	6,210	-
Less: Amounts condoned by the Board	(149,073,639)	-
	-	**27,292,491**

Details of Irregular expenditure - current year

Disciplinary steps taken		
Under investigation and consequence management will be monitored by the Board	149,073,639	-

43. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	96,275,926	104,801,935
Adjusted for:		
Over budget on rental facilities and equipments	(334,525)	(132,145)
Over budget on other income	(148,541)	(3,473)
Over budget on interest on external investment	(3,322)	(42)
Over budget on interest on outstanding debtors	(9,576)	(2,137)
Under budget on employees costs	(6,889,487)	(5,068,267)
Under budget on remuneration of directors	(114,968)	(485,813)
Under budget on depreciation	(155,394)	(52,176)
Under/Over budget on finance costs	(878)	1,316
Under budget on contracted services	(14,230,972)	(10,425,407)
Under budget on general expenses	(3,559,614)	(2,204,158)
Under/Over budget on other material	(148,201)	12,685
Under budget on disposal of assets	47,762	32,659
Under budget on grant from the City of Tshwane	19,138,751	49,592,131
Net surplus per approved budget	**89,866,961**	**136,067,108**

44. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year expense	850,608	808,335

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Opening balance	136,388	129,341
Current year expense	1,729,019	1,202,758
Amount paid - current year	(1,721,021)	(1,195,711)
	144,386	**136,388**

Pension Deductions

Current year	249,405	-
Amount paid - current year	(91,616)	-
	157,789	**-**

The entity implemented the pension and provident fund for employees on the 01 May 2019.

VAT

VAT receivable	3,115	5,113

VAT in receivable is shown in note 10.

Not all VAT returns have been submitted by the due date throughout the year.

Supply chain management regulations

In terms of section 36(1)(a) of the Supply Chain Management Regulations, the accounting officer may dispense with the official procurement processes in the following instances:

- in an emergency
- if such goods or services are produced or available from a single provider only
- for the acquisition of special work of art or historical objects where specifications are difficult to complete
- acquisition of animals for zoos or nature and game reserves
- in any other exceptional case where it is impractical or impossible to follow the official procurement process

Housing Company Tshwane deviated from official procurement processes during the year since it was impractical to follow proper supply chain processes as the service was previously offered by a single supplier. The Accounting Officer reported deviations to the board during the next board meeting and deviations were condoned by the board.

Incidents		
Nasho membership	37,897	21,015
Emergency repairwater leaks	67,875	-
License fee (Pastel Payroll, Accounting and Caseware)	82,354	76,608
Repair gate, electricity & glasses	34,908	-
Repairing of Biometric access control	33,443	2,278
Valuation of Eloff building	-	10,000
Advertising of vacancies (Sowetan, Pretoria News & City Press)	179,519	169,760
Professional service for the development of Chantelle	-	16,310,024
Professional service for the development of Sunnyside	-	5,766,902
Total	**435,996**	**22,356,587**

Accounting Policies

Figures in Rand

45. Non compliance with the Municipal Finance Management Act

Creditors paid after 30 days		
Creditors not paid within 30 days	5,193,574	-

In terms of the Municipal Finance Management Act, creditors must be paid within 30 days after receipt of the invoice. The entity did not comply with the requirements as there was no budget allocation to finance the commitments raised.

46. Budget differences

Material differences between budget and actual amounts

Statement of Financial performance

Rental of facilities and equipment

The variance was as a result of parking revenue received on the self-sufficient elderly(SSE) buildings not incorporated in the 2018/2019 approved budget. SSE's (Hercules and Noordepark) were budgeted to be received in May 2019 but the entity received the SSE's in February 2019.

Interest received - outstanding debtors

The variance was attributed to interest charged to Clarina tenants on outstanding levies payment. Clarina building is the complex transferred to Housing Company Tshwane by the City. The complex is utilized to provide alternative accommodation to ex-Schubart Park residents.The credit control policy was implemented where some tenants were handed over to the Rental Housing Tribunal for collection and eviction as the last resort. As an additional mitigation strategy towards non-collection of levies, management will engage with the City of Tshwane to find the solution to the problem as the City of Tshwane is paying rental for ex-Schubart Park residing in other buildings.

Interest received - external investments

Cash in the bank has increased and the rental deposit of tenants has been placed on an interest bearing account.

Other revenue

The variance was as a result of non-budgeted items like electricity recoveries on the self-sufficient elderly (SSE) buildings transferred to the entity earlier than expected.

Employee Costs

The variance was due to the delay in the appointment of Executive Management positions. The appointment process was concluded for the CEO who resumed her role on the 1 April 2019. The CFO was also appointed in February 2019 but resigned in May 2019.

Remuneration of directors

There was no board meeting in June 2019 hence the variance.

Depreciation and amortisation

The variance was as a result of review of useful life of assets in compliance with GRAP 17

Other material

The variance was as a result of less material being bought during the period under review.

Contracted services

46. Budget differences (continued)

The variance was due to the delay in the appointment of service providers to conduct building conditions assessment on take on from the City of Tshwane, social facilitation, tenant regularization and marketing of the entity as per the board approved turnaround strategy.

Finance Costs

This relates to the loan with National Housing Finance Corporation (NHFC) which was settled in October 2018 to reduce finance charges.

General Expenses

The variance was as a result of less amount being spent on operating expenditures on item like uniforms (safety clothing), advertising of HCT in newsletters and brochures and rental paid.

Transfer recognised - Capital

The variance was due to grant funding not received from Social Housing Regulatory Authority (SHRA) and the underspending on Chantelle and Sunnyside projects. The entity has not met the financial closure conditions as per the SHRA agreement for the Townlands project. The outstanding conditions are related to town planning and the entity is engaging with the City to assist it in fast tracking the process within legislative requirements.

Statement of Financial Position

Receivables from exchange transactions

Management budgeted for less bad debts provision on Clarina tenants but the actual provision was higher as result of Clarina tenants who are not paying their levies.

Receivables from non-exchange transactions

During the adjustment budget process of 2018/2019, Chantelle and Sunnyside projects were not allocated budget. Management submitted the request for transfer from Human Settlement department to Mayoral Mayoral Committee for approval. The budget of R17, 616,515 was only approved on the 30 May 2019 hence payment still outstanding from the City of Tshwane.

Other receivables from exchange transactions

Management budgeted for the electricity deposit on pre-paid but pre-paid meters has not been installed on buildings under management.

VAT receivables

VAT receivables was not budgeted for.

Cash and cash equivalent

Cash and cash equivalents is higher than the budgeted amount as the operational grant was only received in June 2019. The City of Tshwane could not pay the operational grant without Council approved Service Delivery Agreement (SDA). The SDA was only approved by Council on the 30 May 2019.

Property, plant and equipment

Property, plant and equipment lower than budgeted as the budget for projects was removed from the adjustment budget.

Intangible Assets

The entity did not budget for intangible assets.

Accounting Policies

Figures in Rand

46. Budget differences (continued)

Operating Lease Liability

The operating lease liability is lower due to the current contract which is more reasonable as compared to the previous contract with Konika Minolta.

Payables from exchange transactions

Payables are higher due to Chantelle and Townlands' invoice not paid at the end of June 2019.

Unspent conditional grant and receipts

The entity did not budget for unspent conditional grant in the period under review and this was impacted by the underspending on Chantelle and Sunnyside projects.

Employee benefits

The employees have not taken sufficient leave during the period under review. The directors emoluments and overtime was accrued at the end of June 2019.

Provision

The entity did not budget for retention on Chantelle extension 14 and Sunnyside contracts.

Rental deposit received

Rental deposit is twice monthly rental and during the budget process management did not account for deposit on SSE's transferred from the City of Tshwane.

Cash Flow Statement

Customer Receipts

The collection rate has improved on buildings under management, Eloff (100%), Silwerkroon (101%), Clarement (95%), Capital Park (97%), Danville (94%) and Oosmont (97%) but declined at Clarina building (15%).

Capital Grant Receipts

The variance was as a result of the capital budget removed from the entity's budget during the adjustment budget process and grant funding not received from Social Housing Regulatory Authority (SHRA).

Interest Income

The reported interest include interest on outstanding debtors and the budget accommodate only interest received from the bank.

Payments to employees

The variance was as a result of vacant Executive Management positions.The appointment process was concluded for the CEO who resumed her role on the 1 April 2019. The CFO was also appointed in February 2019 but resigned in May 2019.

Payments to suppliers

The variance was due to the delay in the appointment of service providers to conduct building conditions assessment on take on from the City of Tshwane, social facilitation, tenant regularization and marketing of the entity as per the board approved turnaround strategy.

Purchase of Property, plant and equipment

Accounting Policies

Figures in Rand

46. Budget differences (continued)

The variance was due to retention included in the property, plant and equipment.

Purchase of Intangible Asset

The entity din not budget for intangible assets.

Interest bearing liabilities

The variance was due to the loan settlement with NHFC.

Differences between budget and actual amounts basis of preparation and presentation

The budget and the accounting bases differ. The annual financial statements for the whole-of-government are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance. The annual financial statements are not consolidated statements that include all controlled entities, including government business enterprises for the fiscal period from 01/07/2018 to 30/06/2019. The annual financial statements differ from the budget, which is approved on the accrual basis and which deals only with the general government sector that excludes government business enterprises and certain other non-market government entities and activities.

The amounts in the annual financial statements were recasted from the accrual basis to the cash basis and reclassified by functional classification to be on the same basis as the final approved budget. In addition, adjustments to amounts in the annual financial statements for timing differences associated with the continuing appropriation and differences in the entities covered (government business enterprises) were made to express the actual amounts on a comparable basis to the final approved budget.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters and reduced grant funding from the City of Tshwane for Townlands, Sunnyside and Chantelle projects. For details on these changes please refer to pages 12 to 14 in the Annual Financial Statements.